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Canada Southern Petroleum Ltd. 1970 Annual Report

YEAR ENDED JUNE 30

Canada Southern Petroleum Ltd.

BOARD OF DIRECTORS

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Montreal Trust Company, 15 King Street, West, Toronto, 1, Ontario
The First Jersey National Bank, 2 Montgomery Street, Jersey City, N. J. 07303
United California Bank, 108 West 6th Street, Los Angeles, Calif. 90054

Inquiries or requests for additional information concerning Canada Southern Petroleum Ltd.
should be addressed to the Company in care of
The First Jersey National Bank, P.O. Box 960, Jersey City, N. J. 07303,
or to 940 Eighth Avenue South West, Calgary, Alberta, Canada.

Canada Southern Petroleum Ltd.

PRESIDENT'S LETTER

To the Shareholders:

The intensity of the petroleum search in the Far North where your Company holds extensive leasehold interests appears destined to mark the current drilling season as one of the most active on record. The underlying factors responsible for this acceleration in exploratory activity result in the main from the developing energy deficiency in the United States, which has reached crisis proportions. Additionally, it has finally become obvious that overseas supplies of petroleum cannot be depended upon to bridge the energy gap. Further, the rate of discoveries in the United States of both oil and gas has failed to keep pace with burgeoning domestic demands. Moreover, a continuing series of crises such as those posed by the Mideast conflict and the resulting worldwide tanker shortage have contributed to telescoping what heretofore had been regarded as a long-range energy deficiency into a massive problem of immediate, critical concern.

With awareness of the magnitude of this problem has come a realization of the immense energy potential buried beneath the northern rim of North America, with its promise of a stable source of energy fuels vital to continental security.

Active exploration for oil and gas has now spread from the early Prudhoe Bay discovery sector of Alaska eastward to include a vast area extending from the important Mackenzie Delta across the entire Arctic Archipelago.

On King Christian Island in the Arctic Archipelago the Panarctic King Christian D-18 well, the seventh well in the far-ranging exploratory program of the Panarctic consortium, caught fire in October while drilling at 2,000 feet and

the resulting conflagration destroyed the rig. Another rig has since been flown in to drill a directional well in an attempt to bring the discovery well under control. Unconfirmed reports are that the well is flowing gas at rates as high as 40 million cubic feet per day with craters occurring several hundred feet away. This mishap, unfortunate as it is, dramatically focuses attention on the enormous potentialities of the Arctic Islands where your Company has interests in properties covering over 8,000,000 acres.

In a distant area far removed from the Arctic Islands your Company's entry into the oil search offshore New Zealand seems to have come at a most opportune time. The new offshore discovery area of the Shell-British Petroleum consortium northwest of the Cook Strait, referred to in last year's Annual Report, has developed into a major oil and gas-distillate field.

Your Company holds a 25% interest in approximately 5,268,000 acres offshore North and South Islands where a geophysical survey recently completed has shown very favorable results. Several large features were located and defined in the Westland Permit covering approximately 1,300,000 acres offshore the west coast of South Island. The prospects at Westland are rated very highly by the Company's consultants and it is hoped that drilling plans can be formulated during the coming year.

Ample funds are available for the Company's planned exploration activities during the calendar year 1971. In addition, Canada Southern is participating in the net production proceeds in the Peejay area in British Columbia, which reached payout status in December 1968. West Peejay also reached the payout status during July 1970 and the Company's share of net proceeds derived from these two areas now is at the rate of approximately \$400,000 per year.

Additional comments on the Company's activities will be found in the accompanying Operations Review. Because the indicated scope of exploration activity evolving at this time is so extensive, it is your Company's intention to issue to the Shareholders in the Spring of 1971 an Interim Report summarizing exploration accomplished or in progress at that time. Included with this Report also are audited financial statements for the year ended June 30, 1970.

On behalf of the Board of Directors,



President

December 10, 1970

In a technical geophysical report published in The Oil and Gas Journal for November 9, 1970, co-authors Dr. D. A. McNaughton, petroleum consultant to Canada Southern Petroleum Ltd. and Magellan Petroleum Corporation, and F. A. Gibson, prominent geophysicist with 25 years' foreign exploration service in the Far East, Oceania, the Middle East and Africa, discuss the offshore Westland prospect (New Zealand) and its possible reefs. The authors conclude that cumulative evidence appears to support the reefal origin of several stratigraphic bodies at Westland, and that these, taken together with the large structural closure along the Westland fault, constitute potential traps for petroleum accumulation. A limited supply of reprints of the McNaughton-Gibson article is available for mailing to Shareholders upon written request to the Company, c/o First Jersey National Bank, P.O. Box 960, Jersey City, N.J. 07303.

OPERATIONS REVIEW

CANADA

British Columbia

No significant discoveries were made on or close to Canada Southern's lands in British Columbia during the year under review although a number of wells were drilled on the properties. A well currently is being drilled by Pacific Petroleum Ltd. on the Company's 50% carried interest land on former Permit No. 149. It is anticipated that there will be some further exploratory drilling on Company-interest lands during the winter season, particularly in the Peejay and West Boundary Lake areas.

Northwest Territories & Yukon

A number of proposals have been announced for the building of a gas pipeline from Prudhoe Bay in Alaska to the United States via the Mackenzie River Valley. This pipeline would serve primarily to transport gas produced in conjunction with oil but would also serve to handle gas from the Mackenzie Delta and other areas along the route such as the Beaver River and Pointed Mountain gas fields.

An oil pipeline has also been proposed for the same route and field studies have already commenced to determine the problems which such a pipeline may encounter. This program is being financed by a number of companies including those which own the major portion of the Prudhoe Bay field reserves.

Completion of the pipeline to be built by West-coast Transmission Company from Ft. Nelson to the Beaver River field is now indicated for 1971.

The Company conducted a seismic program in the Trout Lake area during the past year and will

participate in a well to be drilled to the Devonian in the Celibeta Lake area this winter. It is anticipated that a number of wells will be drilled in the region north of Trout Lake this winter in spite of disappointing results experienced in the 1969-70 drilling season.

Arctic Islands

Drilling continued in the Arctic Islands with two companies being active. On Mackenzie King Island Elf Oil Exploration Cape Norem A-80 was drilled to 9,744 feet and abandoned. Forty miles to the north, their Wilkens E-60 is drilling at 8,300 feet.

The Panarctic Drake Point K-67A well encountered hydrocarbons in five zones, and was drilled to a depth of 10,671 feet before being plugged back and sidetracked to the Drake Point L-67 wild well. Another well has been started because of continued gas flows.

Panarctic abandoned two wells, the Towson Point F-63 at a depth of 5,123 feet, and the Hoodoo Dome H-37 well at a depth of 11,072 feet. Both were reported to have shown some indications of hydrocarbons. On the west side of Sabine Peninsula the Panarctic Homestead Hecla J-60 well was drilled to 11,865 feet and abandoned.

Two currently drilling tests are of considerable importance to the Company. On Amund Ringnes Island, Panarctic Central Dome H-30, an 11,000-foot test located three miles east of Company lands, is drilling at 2,000 feet on a large anticlinal structure. On Melville Island, Sun Oil Company-Panarctic Kitson River C-71, a 10,000-foot test offsetting a large Company-interest block, is drilling below 2,000 feet.

The Company in March 1970 undertook to pay 10% of the expenditures under an agreement covering 1,174,685 acres on Prince Patrick, Vanier and Emerald Islands between Triad Oil Co. Ltd. and B.P. Oil Limited as farmees and Panarctic for a 10% interest therein. The group is required to drill a 12,000-foot test on both Prince Patrick and Vanier Islands during 1971 with the first well to be spudded prior to May 31, 1971.

Company-interest properties included in Panarctic Agreements

<u>Islands</u>	<u>Gross Acres</u>	<u>%</u>	<u>Net Acres</u>	<u>Panarctic Drilling Obligations(6)</u>
TriCeeTee Agreement				
Prince Patrick, Brock, Melville, Emerald, Bathurst, Ellef Ringnes, Amund Ringnes, Cornwall, Axel Heiberg ..	3,687,097	33 1/3 %	1,229,032	Two 10,000-foot test wells
CSP-Clark-Skelly				
Eight Bears	57,210	40%	22,884	
CSP-B.P.				
Melville	62,650	87.5%	54,819	
CSP				
Axel Heiberg, Ellesmere	709,234	100%	709,234	At least two 6,000-foot test wells on or in the vicinity of Company lands on these islands
	<u>4,516,191</u>		<u>2,015,969</u>	

Interest to be retained by the Company

	<u>Minimum(1)</u>		<u>Maximum(1)</u>	
	<u>% W.I.</u>	<u>Net Acres</u>	<u>% W.I.</u>	<u>Net Acres</u>
TriCeeTee Agreement(2)	6.667	245,819	26.667	983,238
CSP-Clark-Skelly(3)	8.000	4,577	29.333	16,781
CSP-B.P.(4)	17.500	10,964	64.167	40,201
CSP(5)	20.000	141,847	73.333	520,103
		<u>403,207</u>		<u>1,560,323</u>

(1) Depending on Panarctic's actual expenditures in the entire Arctic Islands program, from a minimum of \$20,000,000 to a maximum of \$30,000,000, it can earn from a 20% to 80% working interest in the TriCeeTee properties and from a 26 2/3% to an 80% working interest in the other properties.

(2) Convertible to 5.0% up to 11.666% carried interest or 1.333% up to 2.5% overriding royalty.

(3) Convertible to 6.0% up to 12.0% carried interest or 1.6% up to 2.8% overriding royalty.

(4) Convertible to 13.125% up to 26.25% carried interest or 3.5% up to 6.125% overriding royalty.

(5) Convertible to 15.0% up to 30.0% carried interest or 4.0% to 7.0% overriding royalty.

(6) Based on maximum program.

Status of Carried Interest Agreements as at June 30, 1970

Permit No.	Cumulative to June 30, 1968	
	Gross Expenditures	Production Proceeds
Pacific Agreement		
Ex. — Permits 100-104	\$13,633,545	\$6,248,479
Phillips Agreement		
Ex. Ps. 267 & 268 (Block A)	1,465,488	
Ex. Ps. 262, 234, 266, 245-248 (Block B)	1,863,661	
Ex. P. 149 (Block C)	5,139,934	282,185
Ex. P. 158 (Block E)	533,001	
Ex. P. 178 (Block F)	1,553,373	1,166,051
Ex. P. 224 (Block G)	4,040,156	3,666,139
Dome-Pan American Agreement		
Ex. Ps. 1007, 1132 & 1133	6,557	—
Ex. Ps. 1136, 2713, 1137, 2301, 1153	295,720	—
Ex. Ps. 1149, 1156, 1178, 1181	979,378	—

* Block G. (Peejay) net proceeds from production became payable to the Company in December 1968, and by June 30, 1970 the Company's share amounted to \$508,210.

In October, the Panarctic King Christian D-18 well, located on King Christian Island off the southwest coast of Ellef Ringnes Island, blew out while drilling at 2,000 feet before casing was run, caught fire and the rig was destroyed. Unconfirmed reports are that the top 80 feet of the Upper Triassic massive sand had been penetrated when the well blew out and that the gas is burning at rates as high as 40 million cubic feet daily with craters occurring in the earth up to several hundred feet distant. Another rig has been flown in to drill a directional test to kill the burning well.

Present indications are that the next year will be a very active one in the Arctic Islands. In addition to the six rigs which are already active, three more rigs were moved in last summer. In addition to that of Elf and Panarctic, drilling will be carried out by Sun-King Resources and the BP

Group with Canada Southern participating in some wells (See map insert).

It is expected that during 1971 exploratory drilling will be underway on Mackenzie King, Melville, Bathurst, Loughheed, King Christian, Graham, Amund Ringnes and Ellesmere Islands, in addition to Prince Patrick and Vanier Islands.

Mineral Exploration

Wollaston Lake Uranium Project

The Company, in conjunction with Magellan Petroleum Corporation, completed its uranium exploration program covering 1,507,000 gross acres (1,346,000 net acres) in the Wollaston Lake area of northern Saskatchewan. Comprehensive geophysical and core drilling programs failed to reveal indications of economic uranium minerali-

Year Ended June 30				Cumulative to June 30, 1970			Company Interest	
1969		1970						
Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Gross Expenditures	Production Proceeds	Net Expenditures	%	Cost to Convert to a Working Interest
\$525,684	\$ 915,206	\$795,941	\$ 794,455	\$14,955,170	\$7,958,140	\$ 6,997,030	21.25	\$1,486,869
37,838		37,656		1,540,982		1,540,982	27.75	427,622
86,413		83,295		2,033,369		2,033,369	27.75	564,260
63,079	(2,639)	26,238	(1,952)	5,229,251	277,594	4,951,657	50.00	2,475,829
24,425		24,425		581,851		581,851	50.00	290,925
435,158	380,587	42,286	448,284	2,030,817	1,994,922	35,895	27.75	17,585
194,883	1,333,276	267,858	1,426,742	4,502,897	6,426,157	(1,923,260)	27.75	*
28,852	—	45,702	—	81,111	—	81,111	45.0	36,500
9,222	—	20,067	—	325,009	—	325,009	45.0	146,254
26,215	—	23,573	—	1,029,166	—	1,029,166	45.0	463,125

zation and the mineral permits have been relinquished.

Nemeiben Lake Copper Project

In 1970 the Company entered into an agreement with Uranium Valley Mines Ltd. which entitles Canada Southern to earn interests in a copper sulphide prospect located in northern Saskatchewan. Depending upon exploration monies spent by the parties concerned, the agreement entitles Canada Southern to earn up to a 50% undivided working interest in 6,110 acres centered in the Nemeiben Lake area located about 15 miles northwest of LaRonge, Saskatchewan.

Geological mapping, geophysical surveys, surface trenching, and approximately 15,000 feet of diamond core drilling have been undertaken in the area where sulphide mineralization occurs

at the surface. Diamond core drilling has delineated a thick, well defined, near-vertical mineralized copper zone. To date, widely-spaced core drilling has indicated inferred reserves of three to five million tons of plus 0.60% copper ores in a zone with an average width of 60-70 feet. Within this zone, approximately one million tons of reserves are inferred at an average grade of 1.5% copper over an average width of 10-15 feet. Additional reserves may be developed both laterally and at depth with continued diamond core drilling. Additional core drilling will also be required in an attempt to upgrade inferred reserves to a "proven" status.

Borealis Exploration Limited

Last summer Borealis Exploration Limited continued its work on Melville Peninsula where major

iron ore deposits have been outlined in two sectors. Indicated iron ore reserves in the form of magnetite in the western sector are now estimated at 2.6 billion tons with iron content ranging from 35% to 40%. In the eastern sector 1.1 billion tons are indicated in five separate deposits, grading from 25% to 30% iron content.

In addition to the 3.7 billion tons of magnetite iron ore already outlined, there are also substantial deposits of hematite iron formation, and Borealis' consultants believe that reserves may eventually exceed four billion tons.

Both the eastern and western sectors are amenable to open pit mining and are favorably located with respect to major European markets. Problems of transportation under Arctic conditions are being studied. Bulk samples of the deposits have been shipped to European steel companies and to certain Japanese steel concerns which have indicated interest in the deposits.

**Borealis Exploration Limited
Acreage Summary**

	Gross Acres	Net Acres
Minerals		
Baffin Island	82,150	45,183
Hood River Area	222,901	222,901
Melville Peninsula	267,850	267,850
Petroleum	2,984,487	298,448
Total	<u>3,557,388</u>	<u>834,382</u>

In October 1970, the Company, under its 1968 agreement with Borealis, exercised its right to acquire, at cost, a 20% interest in the Melville iron ore deposits. Canada Southern's share of the exploration and development costs to date is approximately \$78,000, subject to audit as provided in the 1968 agreement.

Along with the work on Melville Peninsula, Borealis continued its explorations in the Hood River area of the Northwest Territories where a number of copper-zinc-silver prospects were revealed. An intensive investigation of the area was in progress as the 1970 season drew to a close. The results of the work to date are being evaluated and a further program is being planned.

In addition to the mineral permits and claims covering approximately 570,000 acres Borealis also holds a 10% interest in approximately three million acres of oil and gas permits in the Foxe Basin of the eastern Arctic.

New Zealand

The Company, through Canada Southern Petroleum (N.Z.) Limited, holds a 25% interest in 5,268,480 acres of petroleum permits offshore New Zealand's North and South Islands.

A 5,500-mile offshore geophysical survey in New Zealand waters was completed in 1969. The objective of this survey was to obtain data on sediment thickness and structural characteristics in various sedimentary basins covered by the concession and application areas of the Company and its associates. Based on the information obtained on that survey, a further detailed marine seismic survey was conducted in 1970 in areas where geological conditions appeared favorable for the accumulation of oil and gas reserves.

The 1970 program included an extensive multi-coverage seismic survey which was designed to further define the prospects indicated by the earlier work offshore South Island in the vicinity of the Westland concession. Marine seismic reconnaissance lines were also completed in North Cape, Hauraki and the Bay of Plenty concessions offshore North Island (See map, page 11).

The Westland seismic survey located several large features having the structural characteristics of petroleum trap structures. One of these features appears to be the product of reefal growth during mid-Tertiary time. As now defined, it covers an area of over 64,000 acres and has indicated carbonate thicknesses ranging up to 2,400 feet. Other similar but smaller features in upper Tertiary sediments may also be products of reefal growth and, if this is the case, they constitute potential petroleum trap structures.

In addition, the Westland survey defined a large closed fault-line structure covering about 76,800 acres in shallow coastal waters. The Company's Westland concession covers about 55% of this prospect.

Canada Southern Petroleum Ltd.

Acreage Summary — JUNE 1970

	Gross Acreage in Which Interest Is Held	Held Under Lease	Net Acreage Held Under Permit	Total
CANADA				
PETROLEUM				
British Columbia				
Pacific Agreement				
Working Interest	160,255	30,359		30,359
Carried Interest	244,323	51,920		51,920
Phillips Agreement — Carried Interest	234,216	76,330		76,330
Other				
Working Interest	90,583	78,392		78,392
Carried Interest	35,289	578		578
Total British Columbia	764,666	237,579		237,579
Yukon & Northwest Territories				
Liard Basin				
Dome-Pan Am Agreement — Carried Interest ..	203,849	91,733		91,733
Other	360,453	267,516	7,902	275,418
Total Liard Basin	564,302	359,249	7,902	367,151
Arctic Islands				
Panarctic Agreements (see accompanying table)				
TriCeeTee	3,687,097		1,229,032	1,229,032
Other	829,094		786,937	786,937
Total Panarctic Agreements	4,516,191		2,015,969	2,015,969
CSP — 100%	3,724,741		3,724,741	3,724,741
Total Arctic Islands	8,240,932		5,740,710	5,740,710
Foxe Basin(*)	2,984,487		12,505	12,505
Total Canada (Petroleum)	12,554,387	596,828	5,761,117	6,357,945
MINERALS				
Northwest Territories(*)				
Melville Peninsula	267,850		11,223	11,223
Hood River District	222,901		9,340	9,340
Baffin Island	82,150		1,893	1,893
Total Northwest Territories	572,901		22,456	22,456
Total Canada	13,127,288	596,828	5,783,573	6,380,401
AUSTRALIA (Petroleum)	76,800		3,840	3,840
NEW ZEALAND (Petroleum)	5,268,480		1,317,120	1,317,120
Grand Total	18,472,568	596,828	7,104,533	7,701,361

(*) Held through the Company's 4.19% stock interest in Borealis Exploration Limited. The Company acquired in October 1970 a 20% interest in the Melville Peninsula iron ore prospect and has the right to acquire up to a 20% interest in any other prospects developed by Borealis Exploration Limited prior to April 1, 1972.

The Company's exploration consultants rate Westland's prospects very highly because of their size, the presence of petroliferous sediments in the onshore segment of Westland basin and the common association of large oil fields with reefal buildups in many petroliferous basins elsewhere in the world.

The interpretation of seismic reconnaissance lines in the other concessions is now in progress.

Petroleum exploration in New Zealand, both onshore and offshore, has shown a tremendous increase during the past year. Petroleum seepages have been known to occur onshore in New Zealand and one commercial gas field has been

discovered and put on production in the southwestern part of North Island.

The oil discovery reported by Shell Oil Company and its partners in March 1969 has developed into a major oil and gas-distillate field. The Shell consortium has recently completed Maui Nos. 2 and 3 wells as substantial producers, located 10 to 15 miles north and east from the discovery well. Maui No. 4, located approximately 30 miles south of the discovery well, reported non-commercial oil production. The four wells drilled in this area to date by the Shell group have encountered hydrocarbons in the multi-pay structure which now appears to extend over an area at least 38 miles in length.



CONSOLIDATED BALANCE SHEET

(Expressed in Canadian dollars)

June 30, 1970 and 1969

ASSETS AND DEFERRED EXPENDITURES

	1970	1969
Current assets:		
Cash	\$ 97,384	\$ 923,205
Bank deposit receipts	4,700,000	4,350,000
Accounts receivable:		
Magellan Petroleum Corporation	78,929	6,152
Pacific Petroleums Ltd.	47,540	61,331
Refundable deposits	—	436,237
Due from sales of the Company's capital stock	—	26,561
Other	32,181	39,682
Special refundable tax — Government of Canada	—	134,475
Refundable deposits and prepaid expenses	36,335	42,111
Total current assets	4,992,369	6,019,754
Investments and advances:		
Borealis Exploration Limited, at cost:		
8% unsecured debentures, maturing March 31, 1978 — interest accruing thereon after March 31, 1973	225,000	225,000
4.19% and 5.36% of common stock, respectively	84,000	84,000
Trans-Border Holdings Limited, 50% of capital stock, at cost, and advances of \$5,248	117,248	117,248
Canada Southern Petroleum (N. Z.) Limited, 25% of capital stock, at cost, and advances of \$842	959	—
Other	5,975	5,975
Oil, gas and mineral permits, leases and interests, including well, geological and geophysical, lease rental and dry hole costs	6,364,625	5,935,169
Other exploratory expenses and general and administrative expenses deferred ...	4,320,883	5,038,357
Land, building and equipment, at cost less accumulated depreciation of \$241,551 and \$229,020, respectively	115,871	128,172
	<u>\$16,226,930</u>	<u>\$17,553,675</u>

The accompanying notes are an integral part of this statement.

LIABILITIES AND CAPITAL

	<u>1970</u>	<u>1969</u>
Current liabilities:		
Non-interest bearing note payable to Borealis Exploration Limited	\$ —	\$ 75,000
Accounts payable and accrued liabilities:		
The Catawba Corporation	18,236	28,307
Other	364,724	92,571
Current portion of mortgage loan	19,900	18,200
Total current liabilities	<u>402,860</u>	<u>214,078</u>
Deferred income	58,425	77,025
7% mortgage loan, maturing February 1974 (secured by land and building), less portion included above	58,532	78,409
Capital:		
Capital stock, par value \$1 per share:		
Authorized — 10,000,000 shares		
Outstanding — 8,581,931 and 8,565,350 shares, respectively	8,581,931	8,565,350
Capital in excess of par value	14,095,422	14,069,240
	<u>22,677,353</u>	<u>22,634,590</u>
Deductions from capital	6,970,240	5,450,427
	<u>15,707,113</u>	<u>17,184,163</u>
Commitments and contingent liabilities (Note 3)		
	<u>\$16,226,930</u>	<u>\$17,553,675</u>

On behalf of the Board:

s/s John W. Buckley, Director

s/s M. A. Reasoner, Director

Canada Southern Petroleum Ltd. (A Canadian corporation)

Year ended June 30, 1969 and 1970

(Expressed in Canadian dollars)

**CONSOLIDATED STATEMENT OF OIL, GAS AND
MINERAL PERMITS, LEASES AND INTERESTS**

	Balance June 30, 1968	Additions and transfers
Oil and gas permits, leases and interests (including excess of cost of investment in certain subsidiaries over net assets acquired)	\$2,913,726	\$ 11,156
Cost of standing wells	1,556,922	21
Geological and geophysical expenses	701,189	195,094
Lease rentals	531,447	194,213
Dry hole costs	175,349	23,200
Costs related to mineral permits	—	—
	<u>\$5,878,633</u>	<u>\$423,684</u>

**CONSOLIDATED STATEMENT OF OTHER EXPLORATORY EXPENSES
AND GENERAL AND ADMINISTRATIVE EXPENSES DEFERRED**

Portion of organization, corporate, general and administrative expenses incurred by predecessor company prior to April 20, 1954	\$1,956,162	
Expenses of the Company since April 20, 1954:		
Salaries and employee benefits	1,946,212	\$140,267
Financial, technical and other services under contract	1,764,124	179,529
Shareholders' reports and capital stock expenses	748,695	130,897
Legal services	846,641	58,407
Building maintenance and rent	553,437	47,558
Depreciation, depletion and amortization	327,398	17,955
Interest and exchange	332,698	7,533
Intangible drilling costs, lease operating costs and royalties	326,457	7,779
Geological and engineering	254,844	12,983
Transportation	165,276	7,002
Auditing services	124,667	11,302
Communications	109,929	8,205
Public relations	28,430	12,590
Miscellaneous	306,677	25,723
	<u>9,791,647</u>	<u>667,730</u>
Less income:		
Rent, interest and other income	806,534	182,336
Oil and gas sales	688,565	11,030
Proceeds received under carried interest agreement		136,242
Technical and administrative services rendered	180,396	124
Payments received from Phillips Petroleum Company on assigned properties less refund	37,425	—
	<u>1,712,920</u>	<u>329,732</u>
Total before abandonments and sales	8,078,727	337,998
Less portion of above expenses considered allocable to interests abandoned or sold	3,181,961	
	<u>\$4,896,766</u>	<u>\$337,998</u>

The accompanying notes are an integral part of these statements.

Abandonments and sales	Proceeds under carried interest agreement	Balance June 30, 1969	Additions and transfers	Abandonments and sales	Balance June 30, 1970
\$156,575	\$21,164	\$ 2,747,143	\$ (3,599)	\$283,791	\$ 2,459,753
—	—	1,556,943	288	5,242	1,551,989
57,977	25,008	813,298	467,190	2,969	1,277,519
94,925	10,496	620,239	240,137	41,917	818,459
1,003	—	197,546	59,435	100,077	156,904
—	—	—	651,348	551,347	100,001
<u>\$310,480</u>	<u>\$56,668</u>	<u>\$ 5,935,169</u>	<u>\$1,414,799</u>	<u>\$985,343</u>	<u>\$ 6,364,625</u>
		\$ 1,956,162			\$ 1,956,162
		2,086,479	\$ 149,790		2,236,269
		1,943,653	168,813		2,112,466
		879,592	118,096		997,688
		905,048	46,475		951,523
		600,995	46,674		647,669
		345,353	19,683		365,036
		340,231	9,507		349,738
		334,236	7,093		341,329
		267,827	8,324		276,151
		172,278	8,225		180,503
		135,969	11,944		147,913
		118,134	6,780		124,914
		41,020	9,005		50,025
		332,400	28,265		360,665
		<u>10,459,377</u>	<u>638,674</u>		<u>11,098,051</u>
		988,870	481,905		1,470,775
		699,595	13,521		713,116
		136,242	315,300		451,542
		180,520	5,340		185,860
		<u>37,425</u>	<u>—</u>		<u>37,425</u>
		<u>2,042,652</u>	<u>816,066</u>		<u>2,858,718</u>
		<u>8,416,725</u>	<u>(177,392)</u>		<u>8,239,333</u>
\$196,407		3,378,368		\$540,082	3,918,450
\$196,407		\$ 5,038,357	\$ (177,392)	\$540,082	\$ 4,320,883

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

(Expressed in Canadian dollars)

Year ended June 30, 1970 and 1969

	<u>1970</u>	<u>1969</u>
Source of working capital:		
Sales of capital stock less related expenses	\$ (24,358)	\$5,470,529
Exercise of stock options	25,709	129,565
Exercise of stock purchase warrants	41,412	6,809
Proceeds from sales of capital stock and warrants of United Canso Oil & Gas Ltd.	—	560,831
Income and proceeds under carried interest agreement	816,066	386,400
Special refundable tax (non-current)	—	134,475
Increase (decrease) in deferred income	(18,600)	77,025
Depreciation of building and equipment	15,602	14,809
Proceeds from sales of equipment	5,612	3,489
	<u>861,443</u>	<u>6,783,932</u>
Disposition of working capital:		
Additions to other exploratory expenses and general and administrative expenses deferred	638,674	667,730
Additions to oil, gas and mineral permits, leases and interests	1,414,799	423,684
Investments in Borealis Exploration Limited and others	959	301,000
Decrease in 7% mortgage loan (non-current)	19,877	16,799
Additions to building and equipment	3,301	3,845
	<u>2,077,610</u>	<u>1,413,058</u>
Increase (decrease) in working capital	(1,216,167)	5,370,874
Working capital at beginning of year	5,805,676	434,802
Working capital at end of year	<u>\$4,589,509</u>	<u>\$5,805,676</u>

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE

(Expressed in Canadian dollars)

Year ended June 30, 1969 and 1970

	<u>Number of shares</u>	<u>Capital stock, \$1 par value</u>	<u>Capital in excess of par value</u>	<u>Total</u>
Balance at June 30, 1968	6,997,306	\$6,997,306	\$10,030,381	\$17,027,687
Net proceeds from sales of capital stock	1,532,068	1,532,068	3,938,461	5,470,529
Exercise of stock options	34,374	34,374	95,191	129,565
Exercise of stock purchase warrants	1,602	1,602	5,207	6,809
Balance at June 30, 1969	8,565,350	8,565,350	14,069,240	22,634,590
Exercise of stock options	6,837	6,837	18,872	25,709
Exercise of stock purchase warrants	9,744	9,744	31,668	41,412
Additional expenses of 1969 capital stock offering			(24,358)	(24,358)
Balance at June 30, 1970 before deductions from capital	<u>8,581,931</u>	<u>\$8,581,931</u>	<u>\$14,095,422</u>	<u>\$22,677,353</u>

Canada Southern Petroleum Ltd.

NOTES TO FINANCIAL STATEMENTS

June 30, 1970

1. Basis of the financial statements

The accompanying consolidated financial statements include the accounts of Canada Southern Petroleum Ltd. (Canada Southern) and its wholly-owned subsidiaries, Act Oils Limited (Act Oils) and Rampart Petroleum Ltd., hereafter referred to collectively as the Company.

The properties in which the Company has interests are in an exploratory or development stage and, accordingly, all expenditures (less income) have been capitalized or deferred, except that costs and expenses applicable or considered allocable to areas abandoned and other losses, net of profits on sales of certain interests and the excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition, have been deducted from capital.

Realization of the amounts represented by investments and advances, oil, gas and mineral permits, leases and interests and other exploratory expenses and general and administrative expenses deferred is dependent upon future developments, since the properties represented by these assets and deferred expenditures are substantially unexplored or undeveloped.

NOTES TO FINANCIAL STATEMENTS — continued

June 30, 1970

Deductions from capital for the year ended June 30, 1970 and 1969 are summarized as follows:

	1970	1969
Losses on abandonments or sales of interests:		
Prior years (including losses on former operations in the United States) ..	\$11,313,297	\$10,809,749
Current year	1,519,813	503,548
	<u>12,833,110</u>	<u>11,313,297</u>
Profits on sales of certain interests:		
Prior years	4,953,479	4,547,739
Current year	—	405,740
Excess of Canada Southern's equity in net assets of Act Oils over its investment at acquisition	909,391	909,391
	<u>5,862,870</u>	<u>5,862,870</u>
Deductions from capital	<u>\$ 6,970,240</u>	<u>\$ 5,450,427</u>

2. Investments and advances

During the year ended June 30, 1969, the Company sold its investment in United Canso Oil & Gas Ltd. (United Canso) for \$560,831, realizing a profit of \$405,740 which has been credited to deductions from capital in the accompanying consolidated financial statements.

In May 1968, the Company and United Canso entered into an agreement, subsequently amended, with Catawba International, Inc., a subsidiary of The Catawba Corporation, which was acting on behalf of a new company, Borealis Exploration Limited (Borealis), then being organized for the purpose of engaging in mineral exploration in northern Canada. The Company agreed to advance \$225,000 in cash over a three-year period to Borealis, in exchange for \$225,000 face amount of Borealis 8% debentures, maturing March 31, 1978, together with certain options including the option to acquire, at cost, a 20% direct interest in any prospects developed by Borealis prior to March 31, 1972 or until work to prove a prospect is commenced, whichever first occurs. United Canso has a similar option to acquire a 20% direct interest in such prospects, which may be exercised by the Company to the extent not exercised by United Canso. Borealis, in consideration of the Company's agreeing to forego interest for the period ending March 31, 1973 and agreeing to join with United Canso in maintaining Borealis' books and records at the Company's and United Canso's expense for the period ending March 31, 1972, issued to the Company 90,000 fully-paid and nonassessable shares of its common stock. These shares were valued at \$84,000, based on the above-mentioned considerations, which amount has been treated as deferred income in the accompanying consolidated financial statements, of which amount \$18,600 was taken into income during the year ended June 30, 1970. At June 30, 1970, the Company's equity in net assets of Borealis was approximately \$30,230. These net assets consist primarily of deferred exploratory and administrative costs.

In 1969, the Company acquired four New Zealand offshore concessions through a newly-organized, wholly-owned subsidiary, Canada Southern Petroleum (N.Z.) Limited (CSPNZ). Magellan Petroleum New Zealand Limited (MPNZ) acquired a 75% interest in CSPNZ on April 1, 1970 pursuant to an agreement whereby MPNZ reimbursed CSPNZ for all costs incurred relating to the aforementioned concessions to that date.

3. Properties and related exploratory and other expenses

The Company's properties and property interests are located in British Columbia, the Yukon and Northwest Territories, the Arctic Islands, Saskatchewan, Alberta, Australia and New Zealand.

NOTES TO FINANCIAL STATEMENTS — continued

June 30, 1970

At June 30, 1970, much of the acreage located in British Columbia and the Yukon and Northwest Territories was covered by carried (net profits) interest agreements. These carried interest agreements provide that profits are not payable to the Company until expenditures by the operators have been recouped from production. Also, the Company may at any time elect to convert its position from a carried interest to a working interest by paying its share of the expenditures not recouped by profits from production. At June 30, 1970, the accumulated expenditures by the operators attributable to the Company's carried interests substantially exceeded the amounts recouped from production, except for one block which reached payout status during December 1968. The Company's share of profits from this block was \$315,300 during the year ended June 30, 1970, which amount has been credited to other exploratory expenses and general and administrative expenses deferred in the accompanying consolidated financial statements.

At June 30, 1970, the Company's share of the cost of a standing well, completed as a discovery on a permit in the Yukon during the year ended June 30, 1965 at which time the Company had a 45% working interest, amounted to \$1,118,250. It is anticipated that a significant amount of rework will be necessary to bring this well to production.

A significant portion of the Company's interests in the Arctic Islands is subject to an agreement with Panarctic Oils Ltd., whereby the latter company may earn interests ranging from 20% to 80% by carrying out a specified exploratory program.

The Company may earn up to a 50% working interest in a copper prospect located near LaRonge, Saskatchewan by contributing up to \$192,500 to an exploration program which is currently in progress.

No provision for amortization of the amount carried for oil, gas and mineral permits, leases and interests or for other exploratory expenses and general and administrative expenses deferred is included in the accompanying consolidated financial statements. Depreciation has been provided for building and equipment by the straight-line method based on estimated useful lives. Depreciation of well equipment and amortization of intangible drilling costs pertaining to producing wells is computed by the unit-of-production method.

Lease rentals, work requirements and deposits in connection with the properties and property interests held by the Company at June 30, 1970 approximate \$1,100,000 for the year ending June 30, 1971.

At June 30, 1970, Canada Southern had issued notes aggregating \$533,448 to the government of Canada because of uncompleted work requirements on various permits. These notes have been excluded from the accompanying consolidated financial statements, since they will be cancelled by the Government upon the completion of these work requirements.

4. The Catawba Corporation

The amounts shown in the consolidated statement of other exploratory expenses and general and administrative expenses deferred for financial, technical and other services under contract represent charges from The Catawba Corporation (Catawba). Canada Southern's current (expiring July 1973) and prior contracts with Catawba have provided for payments based on services rendered and the granting of a 1/64th overriding royalty on all properties acquired by Canada Southern during the term of the contract. The contracts also have provided for special compensation for services rendered not contemplated under the contracts. During the year ended June 30, 1969, the Company approved a \$35,000 payment to Catawba as a bonus for services rendered in connection with the 1968 "Subscription Offer" of the Company. Catawba provides similar services to Magellan Petroleum Corporation, Borealis Exploration Limited, Canada Southern Petroleum (N.Z.) Limited, United Canso Oil & Gas Ltd. and Magellan Petroleum New Zealand Limited. Certain of the stockholders, officers and employees of Catawba are directors, officers and/or shareholders of Canada Southern and of the other companies mentioned above.

5. Capital, stock purchase warrants, and stock options and reservations

During the year ended June 30, 1969, the Company sold 1,259,050 shares of its capital stock together with stock purchase warrants, pursuant to a "Subscription Offer" dated October 28, 1968 made by the Company to its shareholders,

NOTES TO FINANCIAL STATEMENTS — continued

June 30, 1970

realizing net proceeds of \$3,370,728. These warrants entitle the holder to purchase shares of the Company's capital stock at a price of \$4.25 for each share purchased on or before December 31, 1970, \$5.00 from January 1, 1971 to December 31, 1972 and \$5.75 from January 1, 1973 to December 31, 1973. During the two years ended June 30, 1970, warrants to purchase 11,346 shares were exercised with proceeds to the Company of \$48,221. At June 30, 1970, there were stock purchase warrants outstanding for the purchase of 618,179 shares of the Company's capital stock. Also, during the year ended June 30, 1969, the Company sold 273,018 shares of its capital stock without stock purchase warrants, realizing net proceeds of \$2,099,801.

On April 11, 1967, the Company's shareholders approved an incentive stock option plan authorizing the Board of Directors to grant options on 300,000 shares of the Company's capital stock. Under this plan, on January 8, 1968, options to purchase shares were granted to The Catawba Corporation for 150,000 shares and to employees for 58,000 shares and, on June 25, 1969, an option was granted to a Canadian counsel for 10,000 shares. The options granted to Catawba vest and become exercisable to the extent of 35% beginning January 8, 1969, an additional 35% beginning January 8, 1970 and the remaining 30% beginning January 8, 1971. The options granted to employees and the Canadian counsel had the same provisions as to vesting and to exercise, but due to certain considerations the Board of Directors in 1969 amended the employees and Canadian counsel options so that these options vested and became exercisable immediately following such Board action.

During the year ended June 30, 1970, employees and Catawba exercised options on 6,837 shares at \$3.50 (U.S.) per share, an aggregate of \$23,930, as compared with market prices ranging from \$5.00 to \$7.75 (U.S.) per share, an aggregate of \$39,237, on the dates of exercise.

Stock options outstanding at June 30, 1970 are summarized as follows:

Optionee	Date of grant	Expiration date	Number of shares	Option price (per share)	Market price (per share) at date of grant
The Catawba Corporation ..	Jan. 8, 1968	Jan. 7, 1973	144,489	\$3.50(U.S.)	\$3.50(U.S.)
Employees	Jan. 8, 1968	Jan. 7, 1973	22,300	3.50	3.50
Canadian counsel	June 25, 1969	June 24, 1974	10,000	8.00	8.00
			<u>176,789</u>		

At June 30, 1970, 131,789 of the above-mentioned options on 176,789 shares were exercisable. In addition, there were 105,000 shares reserved for future option grants at June 30, 1970. During the year ended June 30, 1970, there were no changes in stock options other than as mentioned above.

6. Allocated expenses and compensation

Certain employees and office facilities are shared with United Canso Oil & Gas Ltd. and certain of the general and administrative expenses represent allocated portions of common expenses. Compensation of directors, officers and senior employees allocated to or paid directly by Canada Southern amounted to \$82,839 and \$96,140 for the years ended June 30, 1969 and 1970, respectively. Contributions to a pension plan on their behalf allocated to Canada Southern amounted to \$4,537 and \$4,863 for the years ended June 30, 1969 and 1970, respectively.

AUDITORS' REPORT

The Board of Directors and Shareholders

Canada Southern Petroleum Ltd.

We have examined the accompanying consolidated balance sheets of Canada Southern Petroleum Ltd. at June 30, 1970 and 1969, the related consolidated statements of oil, gas and mineral permits, leases and interests, of other exploratory expenses and general and administrative expenses deferred and of capital stock and capital in excess of par value and the consolidated statements of source and disposition of working capital for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to such adjustment as would result from failure to recover in the future the amounts at which investments and advances, oil, gas and mineral permits, leases and interests and other exploratory expenses and general and administrative expenses deferred are carried in the consolidated balance sheets (see Note 1), the statements mentioned above present fairly the consolidated financial position of Canada Southern Petroleum Ltd. at June 30, 1970 and 1969, the consolidated changes in oil, gas and mineral permits, leases and interests, in other exploratory expenses and general and administrative expenses deferred and in capital stock and capital in excess of par value and the source and disposition of its consolidated working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young, Clarkson, Gordon & Co.

New York, N. Y.
September 11, 1970
